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GAO

United States General Accounting Office

Fact Sheet for Congressional Requesters

October 1989

SUPPLEMENTAL STUDENT LOANS

Who Borrows and Who Defaults

GAO/HRD-90-33FS

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-237438

October 17, 1989

The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate

The Honorable Pat Williams
Chairman, Subcommittee on Postsecondary
Education
Committee on Education and Labor
House of Representatives

This report responds to your request for information on the Supplemental Loans for Students (SLS) program. This program provides market rate loans to postsecondary students in addition to, or in lieu of, other financial aid, such as Stafford loans (formerly called guaranteed student loans) and Pell grants. This information should be useful in deciding whether changes in student eligibility provisions for the SLS program should be included in the fiscal year 1990 budget reconciliation act. Specifically, you requested data on the volume of loans made to students attending proprietary (trade) schools and other postsecondary education institutions as well as information on the extent of borrowing by freshmen[1] as opposed to students in their second or a subsequent year of schooling. In addition, you wanted to know the amount of SLS defaulted loans.

On October 5, 1989, we briefed your offices on the preliminary results of our analysis. This fact sheet summarizes the information provided.

Background

Loans under the SLS program are made by a lender, such as a bank, credit union, or savings and loan association. Before students can receive an SLS loan, their schools must first determine their eligibility for a Stafford loan and/or Pell grant, both of which have more stringent eligibility requirements. If students are eligible for aid from either or both of these programs, it is intended they should first receive that assistance, which may reduce the amount they can borrow under the SLS program.

[1]Many proprietary student borrowers go to schools with programs of instruction of 1 year or less and would, therefore, be classified as freshmen.

Under the SLS program, graduate and certain undergraduate students (generally those responsible for their own financial support) may borrow up to $4,000 per year, to a maximum of $20,000. Eligibility for SLS loans, in comparison to Stafford loans and Pell grants, is not based on a borrower's financial resources. SLS loans have variable interest rates, adjusted annually to take into account changes in Department of the Treasury borrowing rates. For the 1988-89 award year the interest rate was 10.45 percent. Repayment of these loans must generally begin within 60 days of the last loan disbursement for each year a loan is received.

These loans, like Stafford loans, are made by lenders who are insured against default by guaranty agencies, who are in turn reinsured by the Department of Education. According to the Department, the volume of SLS loans increased from $711 million in fiscal year 1987 to $2 billion in fiscal year 1988. The Department estimates the volume to be about $2 billion in fiscal year 1989.

Objectives, Scope, and Methodology

In discussions with your offices we agreed to obtain the requested information for fiscal years 1987, 1988, and 1989 from the 11 guaranty agencies that guaranteed the largest loan volumes in fiscal year 1988. According to the Department of Education, these 11 agencies guaranteed over 90 percent of the SLS loans during that year. (These agencies and their loan volume statistics are shown in app. I.) Two agencies—the New York agency and the Great Lakes Higher Education Corporation—were unable to provide the requested data within the needed time frames. Therefore, we limited our analysis to the other nine agencies. We did not verify the accuracy of the data submitted by the guaranty agencies.

The agencies provided default data in one of two ways. Seven agencies provided data on default claims paid by the agencies to the lenders during each of the three fiscal years, regardless of when the SLS loan was guaranteed. The Colorado and Nebraska agencies provided data on the number and dollar volumes of SLS loans guaranteed during each of the three fiscal years, and on those loans that defaulted in the same year

[2]Loan volume reported by the Department reflects the commitments made to lenders by guaranty agencies to insure loans. Net loans guaranteed reflect adjustments that may occur, such as when loan amounts received are less than the amounts guaranteed or loans are canceled by lenders because borrowers did not enroll in school. The loan volume information we received from the guaranty agencies is based on net loans guaranteed by each agency, which may be less than the Department's figures.

guaranteed. For example, the 1989 default data for these two agencies represent the number and dollar volume of SLS loans guaranteed in 1989 that also entered default status during fiscal year 1389. As a result, these agencies' default statistics are understated because they exclude SLS loans guaranteed in previous years that defaulted in fiscal year 1989.

The 1989 data we received do not include activity for the full fiscal year because most of the agencies responded before the end of the year. As agreed with your offices, we will obtain these agencies' complete fiscal year 1989 data and provide these more comprehensive figures at a later date.

Loan Volume

Over $3.2 billion in SLS loans were guaranteed by the nine guaranty agencies during the last 3 years. In addition:

- Loan volume went from $564 million in fiscal year 1987 to $1.347 billion in 1988, and dropped slightly to $1.294 billion in 1989.
- The amount of loans to freshmen borrowers increased from 40 percent of SLS loans in fiscal year 1987 to about 63 percent in fiscal year 1989. During that same period, loan volume to proprietary school borrowers increased from 55 percent to about 60 percent.

Appendix II contains further detail on the loan volume activity.

Loan Defaults

The nine agencies reported that students have defaulted on $310.6 million in SLS loans during the 3-year period. In addition:

- Loan defaults increased from $14 million in fiscal year 1987 to $50 million in 1988, and to $247 million in 1989.
- Loan defaults from freshmen borrowers increased from 12 percent of all defaults in 1987 to 85 percent in 1989. Similarly, defaults from proprietary school borrowers increased from 12 percent of SLS loan defaults in 1987 to 86 percent in 1989.

Appendix III contains further detail on the loan default activity.

Students With SLS Loans Only

There were 419,434 student borrowers who received only SLS loans during the 3 years compared to 673,458 who received both SLS and Stafford loans. Comparisons also showed that:

- From fiscal year 1987 to fiscal year 1989, the number of students receiving only an SLS loan increased from 94,870 to 128,318, while the number receiving both SLS and Stafford loans increased from 93,217 to 328,448.
- Almost 70 percent of the students receiving both kinds of loans in 1989 were freshmen, and 9 out of 10 of these freshmen attended proprietary schools.

Appendixes IV and V contain further detail on which borrowers received only SLS loans or both SLS and Stafford loans, respectively.

As agreed with your offices, we did not obtain written comments on this report from the Department of Education or other interested parties. We are sending copies of this report to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss its contents, please call me on 275-5365. Major contributors to this report are listed in appendix VI.

William J. Gainer

William J. Gainer
Director, Education
and Employment Issues

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Contents

Letter	1
Appendix I Eleven Largest Guarantors of SLS Loans in Fiscal Year 1988	8
Appendix II SLS Loan Volume Activity	9
Appendix III SLS Loan Default Activity	12
Appendix IV Borrowers Who Received Only SLS Loans	15
Appendix V Borrowers Who Received SLS and Stafford Loans	18
Appendix VI Major Contributors to This Report	22
Related GAO Products	24

Tables

Table II.1: SLS Loan Volume for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989) 11
Table III.1: SLS Loan Defaults for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989) 14
Table IV.1: SLS Only Borrowers for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989) 17
Table V.1: SLS and Stafford Loan Borrowers for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989) 21

Figures

Figure II.1: Majority of SLS Loan Volume Is for Freshmen Borrowers 9
Figure II.2: Majority of SLS Loan Volume Is for Proprietary School Borrowers 10
Figure III.1: Defaults From Freshmen Borrowers Have Increased Significantly 12
Figure III.2: Defaults From Proprietary School Borrowers Have Increased Significantly 13
Figure IV.1: Majority of SLS Only Borrowers Are Freshmen 15
Figure IV.2: More SLS Only Borrowers Are Now Attending Nonproprietary Schools 16
Figure V.1: Majority of SLS and Stafford Loan Borrowers Are Freshmen 18
Figure V.2: Majority of SLS and Stafford Loan Borrowers Attend Proprietary Schools 19
Figure V.3: Most Borrowers Are Receiving Both SLS and Stafford Loans 20

Abbreviations

GAO	General Accounting Office
SLS	Supplemental Loans for Students

Eleven Largest Guarantors of SLS Loans in Fiscal Year 1988

Guaranty agency	SLS loan volume
Higher Education Assistance Foundation, St. Paul, Minnesota	$937,122,706
United Student Aid Funds, Inc., Indianapolis, Indiana	232,255,974
California Student Aid Commission, Sacramento, California	212,014,509
New York State Higher Education Services Corporation, Albany, New York	144,147,946
Texas Guaranteed Student Loan Corporation, Austin, Texas	125,113,255
Nebraska Student Loan Program, Inc., Lincoln, Nebraska	67,846,658
Colorado Student Loan Program, Denver, Colorado	33,639,805
Pennsylvania Higher Education Assistance Agency, Harrisburg, Pennsylvania	25,745,684
Ohio Student Loan Commission, Columbus, Ohio	24,014,467
Great Lakes Higher Education Corporation, Madison, Wisconsin	21,204,075
Massachusetts Higher Education Assistance Corporation, Boston, Massachusetts	18,578,487
Total	**$1,841,683,586**

Source: FY 1988 Guaranteed Student Loan Programs Data Book, Department of Education

SLS Loan Volume Activity

Figure II.1: Majority of SLS Loan Volume Is for Freshmen Borrowers

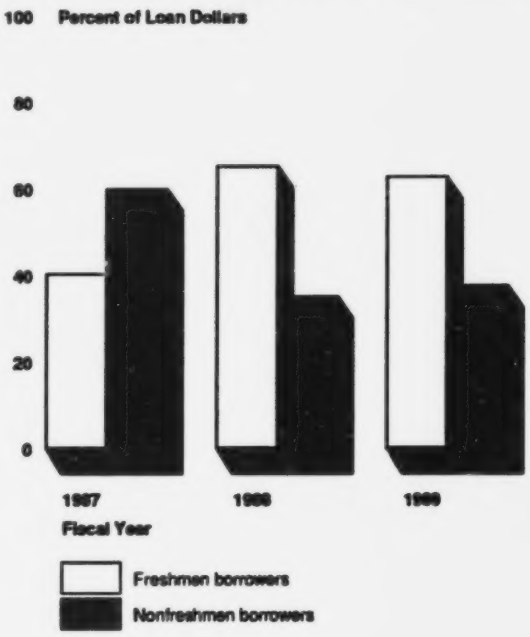

Figure II.2: Majority of SLS Loan Volume Is for Proprietary School Borrowers

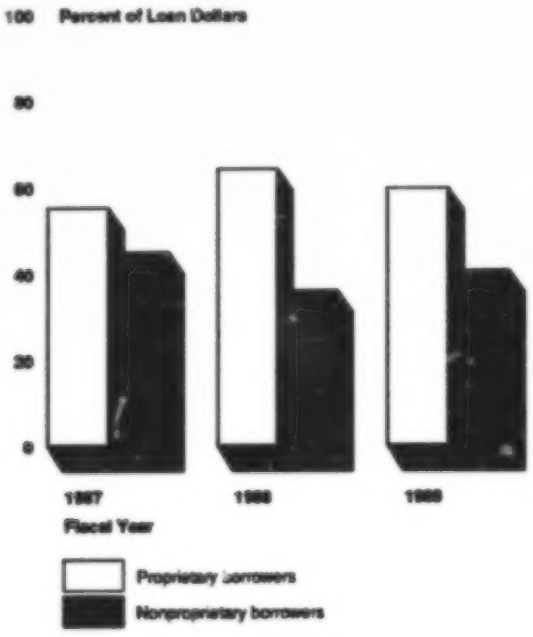

Table II.1: SLS Loan Volume for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)[a]

	Proprietary schools		Nonproprietary schools		
Fiscal year 1987	**Dollars**	**Percent**	**Dollars**	**Percent**	**Total dollars**
Freshmen	$193,506,248	34.30	$33,312,387	5.90	**$226,818,635**
Nonfreshmen	117,412,208	20.81	219,918,122	38.98	**337,330,330**
Totals	**310,918,456**	**55.11**	**253,230,509**	**44.89**	**564,148,965**
Fiscal year 1988					
Freshmen	778,389,910	57.77	98,392,674	7.30	**876,782,584**
Nonfreshmen	85,602,996	6.35	384,983,882	28.57	**470,586,878**
Totals	**863,992,906**	**64.12**	**483,376,556**	**35.88**	**1,347,369,462**
Fiscal year 1989					
Freshmen	706,034,143	54.55	103,441,082	7.99	**809,475,225**
Nonfreshmen	64,004,730	4.95	420,797,829	32.51	**484,802,559**
Totals	**770,038,873**	**59.50**	**524,238,911**	**40.50**	**1,294,277,784**
Grand totals for 1987-89					
Freshmen	1,677,930,301	52.34	235,146,143	7.34	**1,913,076,444**
Nonfreshmen	267,019,934	8.33	1,025,699,833	32.00	**1,292,719,767**
Grand totals	**$1,944,950,235**	**60.67**	**$1,260,845,976**	**39.33**	**$3,205,796,211**

[a]The percentages are computed by dividing the individual dollar amounts for proprietary and nonproprietary borrowers by the total dollar volume

SLS Loan Default Activity

Figure III.1: Defaults From Freshmen Borrowers Have Increased Significantly

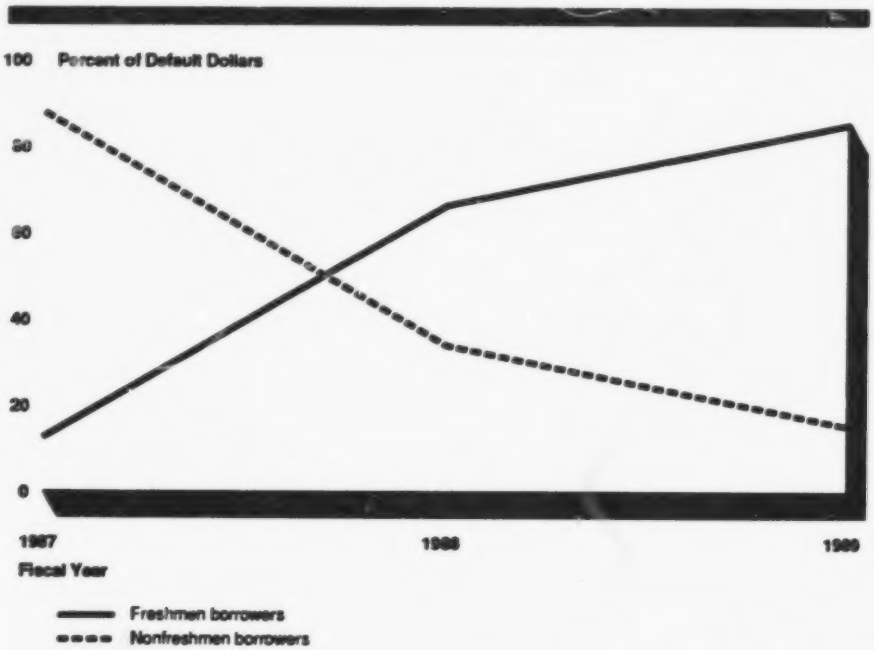

Figure III.2: Defaults From Proprietary School Borrowers Have Increased Significantly

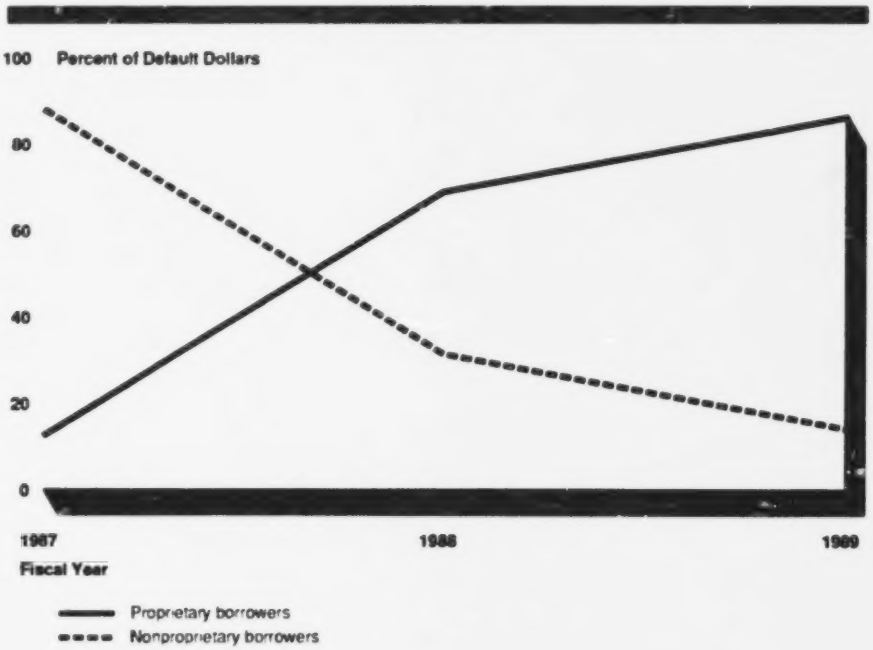

Table III.1: SLS Loan Defaults for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)[a]

	Proprietary schools		Nonproprietary schools		
Fiscal year 1987	**Dollars**	**Percent**	**Dollars**	**Percent**	**Total dollars**
Freshmen	$1,329,132	9.64	$378,923	2.75	**$1,708,055**
Nonfreshmen	358,763	2.60	11,714,123	85.00	**12,072,886**
Totals	**1,687,895**	**12.25**	**12,093,046**	**87.75**	**13,780,941**
Fiscal year 1988					
Freshmen	30,423,151	60.64	2,824,296	5.63	**33,247,447**
Nonfreshmen	4,082,848	8.14	12,837,598	25.59	**16,920,446**
Totals	**34,505,999**	**68.78**	**15,661,894**	**31.22**	**50,167,893**
Fiscal year 1989					
Freshmen	196,806,671	79.80	12,634,613	5.12	**209,441,284**
Nonfreshmen	15,434,079	6.26	21,756,299	8.82	**37,190,378**
Totals	**212,240,750**	**86.06**	**34,390,912**	**13.94**	**246,631,662**
Grand totals for 1987-89					
Freshmen	228,558,954	73.59	15,837,832	5.10	**244,396,786**
Nonfreshmen	19,875,690	6.40	46,308,020	14.91	**66,183,710**
Grand totals	**$248,434,644**	**79.99**	**$62,145,852**	**20.01**	**$310,580,496**

[a]The percentages are computed by dividing the individual dollar amounts for proprietary and nonproprietary borrowers by the total dollar volume

Borrowers Who Received Only SLS Loans

Figure IV.1: Majority of SLS Only Borrowers Are Freshmen

Figure IV.2: More SLS Only Borrowers Are Now Attending Nonproprietary Schools

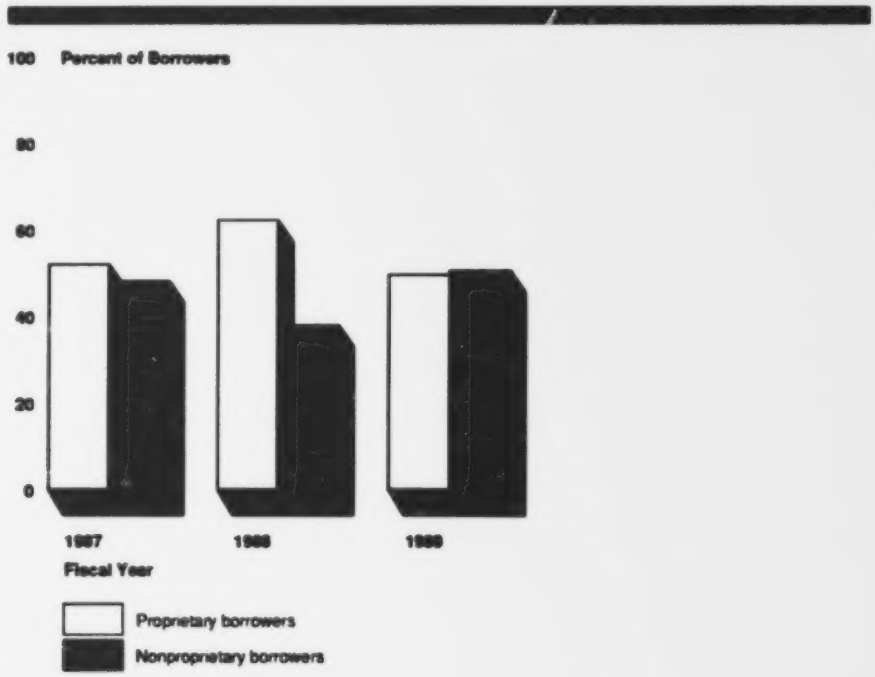

Table IV.1: SLS Only Borrowers for Nine Guaranty Agencies (Fiscal Years 1987 1988 and 1989)[a]

	Proprietary schools		Nonproprietary schools		
Fiscal year 1987	**Students**	**Percent**	**Students**	**Percent**	**Total students**
Freshmen	42 455	44 75	7 137	7 52	**49,592**
Nonfreshmen	6 798	7 17	38 480	40 56	**45,278**
Totals	**49,253**	**51.92**	**45,617**	**48.08**	**94,870**
Fiscal year 1988					
Freshmen	104 147	53 07	17 750	9 04	**121,897**
Nonfreshmen	17 863	9 10	56 486	28 78	**74,349**
Totals	**122,010**	**62.17**	**74,236**	**37.83**	**196,246**
Fiscal year 1989					
Freshmen	55 288	43 09	14 951	11 65	**70,239**
Nonfreshmen	8 271	6 45	49 808	38 82	**58,079**
Totals	**63,559**	**49.53**	**64,759**	**50.47**	**128,318**
Grand totals for 1987-89					
Freshmen	201 890	48 13	39 838	9 50	**241,728**
Nonfreshmen	32 932	7 85	144 774	34 52	**177,706**
Grand totals	**234,822**	**55.99**	**184,612**	**44.01**	**419,434**

[a]The percentages are computed by dividing the individual number of students for proprietary and nonproprietary schools by the total number of students. In addition, the total number of students may be a duplicated count because a student could have received an SLS loan in one or more years.

Borrowers Who Received SLS and Stafford Loans

Figure V.1: Majority of SLS and Stafford Loan Borrowers Are Freshmen

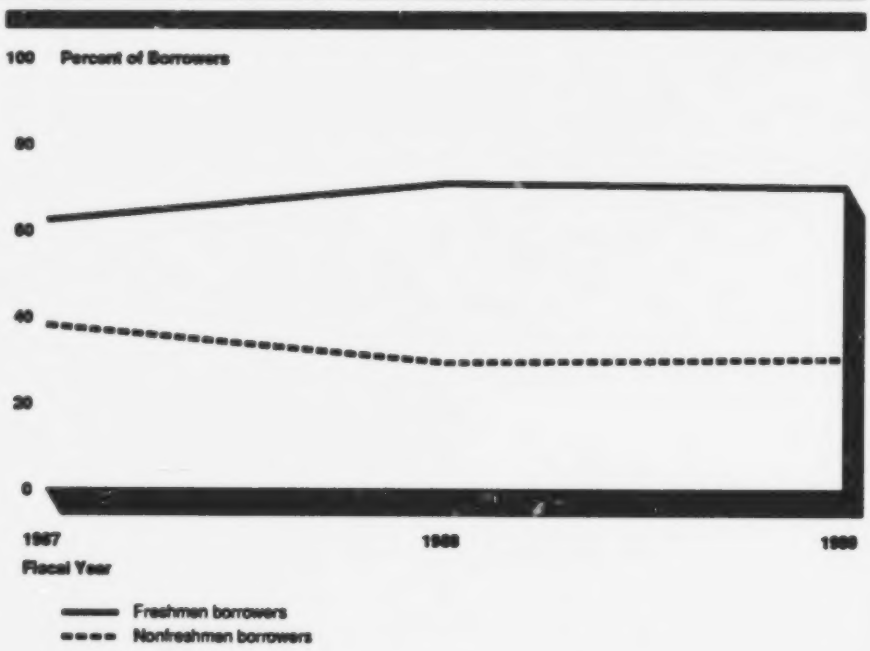

Figure V.2: Majority of SLS and Stafford Loan Borrowers Attend Proprietary Schools

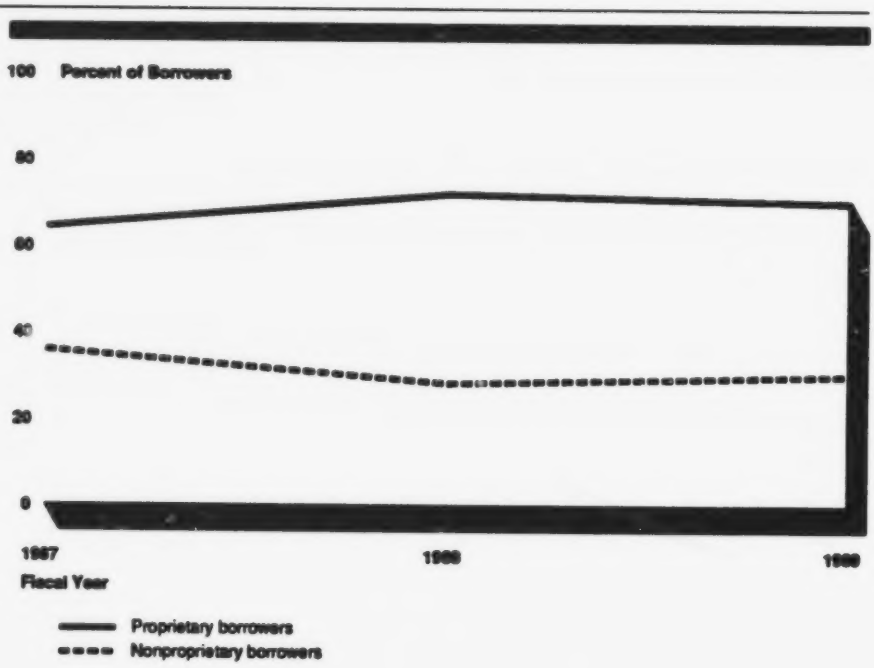

Figure V.3: Most Borrowers Are Receiving Both SLS and Stafford Loans

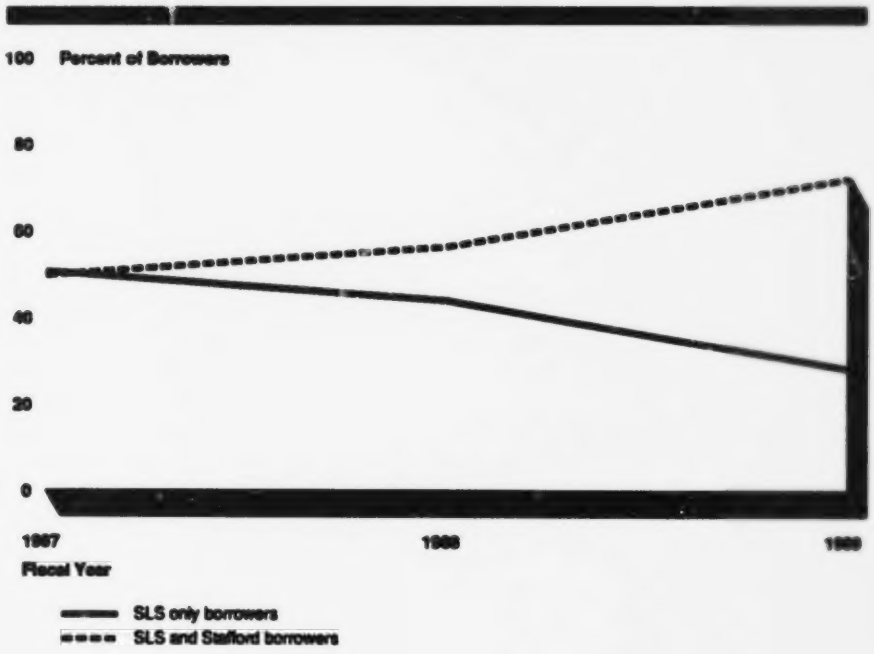

Table V.1: SLS and Stafford Loan Borrowers for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)[a]

	Proprietary schools		Nonproprietary schools		
Fiscal year 1987	**Students**	**Percent**	**Students**	**Percent**	**Total students**
Freshmen	52,763	56.60	5,161	5.54	**57,924**
Nonfreshmen	7,051	7.56	28,242	30.30	**35,293**
Totals	**59,814**	**64.17**	**33,403**	**35.83**	**93,217**
Fiscal year 1988					
Freshmen	161,208	64.02	16,895	6.71	**178,103**
Nonfreshmen	19,723	7.83	53,967	21.43	**73,690**
Totals	**180,931**	**71.86**	**70,862**	**28.14**	**251,793**
Fiscal year 1989					
Freshmen	206,332	62.82	23,089	7.03	**229,421**
Nonfreshmen	23,496	7.15	75,531	23.00	**99,027**
Totals	**229,828**	**69.97**	**98,620**	**30.03**	**328,448**
Grand totals for 1987-89					
Freshmen	420,303	62.41	45,145	6.70	**465,448**
Nonfreshmen	50,270	7.46	157,740	23.42	**208,010**
Grand totals	**470,573**	**69.87**	**202,885**	**30.13**	**673,458**

[a]The percentages are computed by dividing the individual number of students for proprietary and nonproprietary schools by the total number of students. In addition, the total number of students may be a duplicated count because a student could have received an SLS and Stafford loan in one or more years.

Major Contributors to This Report

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Related GAO Products

Guaranteed Student Loans: Comparisons of Single State and Multistate Guaranty Agencies (GAO HRD-89-92, July 11, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO HRD-89-43BR, July 5, 1989).

Guaranteed Student Loans: Lenders' Interest Billings Often Result in Overpayments (GAO HRD-88-72, Aug. 31, 1988).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988).

Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO HRD-88-52BR, Jan. 7, 1988).

Guaranteed Student Loans: Analysis of Insurance Premiums Charged by Guaranty Agencies (GAO HRD-88-16BR, Oct. 7, 1987).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO HRD-87-76, Sept. 30, 1987).

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate (GAO HRD-87-48, Aug. 20, 1987).

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures (GAO HRD-86-114BR, July 17, 1986).

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